

TREA has not reviewed. Processed IAW CIA TREA arrangement letter dtd 4/11/08.

ARMY review(s)
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DIA review(s)
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State Dept. review
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261

TOP SECRET
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38

GENERAL

1. **British plan for SC action against Albania--**A British Foreign Office official has informed US Embassy London that the UK desires the Corfu Channel mining incident to be treated by the Security Council as a "situation," not as a "dispute." The British, who consider the former more "embracing," wish to have Albania charged with "outrageous actions" not only toward Great Britain, but toward all nations, because Corfu Channel is an international waterway.
2. **Views on the effects in Spain of UN actions--**US Embassy Madrid considers that while the short-term effect of the UN debate and Resolution on Spain is favorable to Franco's domestic position, the long-term effect is unfavorable. The Embassy believes that further discussion of the Spanish case before the Security Council would favor those who hope that the regime's intransigence will result in violent upheaval, and would be prejudicial to the interests of those who seek an orderly evolution.
3. **British reject Chinese proposal to intervene in Indochina--**US Embassy London reports that the British Foreign Office has rejected a Chinese proposal that the two countries jointly "intervene" in Indochina.
4. **SCAP urges revision of Japanese reparations program--**In a strong recommendation for a downward revision in the Japanese reparations removal program (which provides for "interim" removals of industrial capacity subject to "final" removals later on), SCAP states that the industrial levels left to Japan by the present "interim" schedules, after some readjustments, will give Japan "a reasonable peacetime economy, stripped of a war potential and developed to the maximum degree of national self-sufficiency."

SCAP believes that efforts to make additional "final" removals should be abandoned, and notes that these efforts reflect both an overestimate of Japan's industrial capacity, and a failure to appreciate Japan's economic needs. Additional removals, SCAP feels, will cut into Japan's ability to import raw materials vital to minimum industrial recovery, and will result in a heavy financial burden upon the US.

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- 1 -

Document No. 007NO CHANGE in Class. ☐☐ DECLASSIFIED

Class. CHANGED TO: TS S (C)

DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 16 MAR 1978

By: **CONFIDENTIAL**

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EUROPE

5. **AUSTRIA: British oppose bilateral Austro-Soviet negotiations--**The State Department has informed US Minister Erhardt that the British, in an aide memoire, have expressed opposition to bilateral Austro-Soviet negotiations on the problem of German assets and have described the Austrian Government's attitude as "astonishing, most untimely and ill-advised" [redacted]

[redacted] The British position is based on the view that (a) bilateral negotiations will lead the Soviets to demand further concessions; (b) Austria lacks the necessary foreign exchange for repurchase, and (c) there is a possibility of British or other UN interest in the assets under consideration. Erhardt is advised that the British intend to discuss the matter "on quadripartite basis" at the meeting of the Austrian deputies on 14 January in London.

6. **POLAND: Lenient attitude toward Poland suggested--**In a recent talk with US Ambassador Lane, Premier Osobka-Morawski declared that, although his Socialist Party favors closer relations with the US, the Communists insist that the USSR is Poland's only friend. The Premier suggested that if he could obtain some tangible sign of US friendship, such as a credit for the purchase of coal-mining machinery, he could refute the Communist charge. Lane recommends that the US "give sympathetic attention" to any Polish proposals, but make no commitments until the Polish Government takes "definitive action" on US demands for (a) access to those who claim US citizenship, (b) adequate compensation to US owners of nationalized property, and (c) conclusion of a bilateral aviation agreement.

7. **RUMANIA: Soviet oil demands--**US Representative Berry reports that the Soviets have accused the Rumanian Government of failure to meet its obligations in the joint Soviet-Rumanian oil company and have made demands which "can only be construed as a deliberate attempt to gain a dominating position in the Rumanian oil industry."

Press repression continues--Berry also reports that the Opposition newspaper which attacked the Government for its fraudulent conduct of the elections [redacted] has been suspended indefinitely and that authorities are considering its permanent suspension.

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FAR EAST

8. **PHILIPPINES: Military bases**--President Roxas has told US Ambassador McNutt that the Philippine Government desires maintenance of US bases and retention of such US troops as may be required. President Roxas regards this matter as a "mandate and settled policy" of the Philippine people.
9. **CHINA: Chinese seeking British financial cooperation in Hongkong**--Central Bank of China officials have advised the Assistant US Treasury Attache in Shanghai that a Chinese financial delegation, headed by the Central Bank's Governor, has left for Hongkong to obtain British cooperation in dealing with (a) the flight of capital from China to Hongkong, (b) the increasing diversion of Chinese overseas remittances to Hongkong, and (c) the smuggling and other diversion of gold and Chinese exports through Hongkong. The Bank officials further hinted that the British, increasingly restive over their secondary position in China, may seek a larger share of Chinese trade in return for cooperation.
International financial position appears precarious--According to new international balance-of-payments estimates submitted to Embassy Nanking by T.V. Soong, China will show a deficit equivalent to US \$332 million for the second half of 1946 and to US \$381 million for the full year 1947. Soong also provided figures showing that as of 18 December, the Central Bank of China possessed net holdings of foreign exchange and bullion worth about US \$423 million. He added that "if the prospective deficit for 1947 has to be financed out of official holdings, there will be nothing left for currency reserves."
10. **FRENCH INDOCHINA: Motives in Hanoi incident**--US Consul Hanoi reports that the Vietnam attack on French civilians and military forces at Hanoi on 19 December was "undoubtedly premeditated" by the Vietnam Government. The Consul is certain that, in forthcoming conversations in Indochina between Vietnamese representatives and Marius Moutet (French Minister for Overseas France), Vietnam will insist upon greater independence than the French had ever envisaged.

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THE AMERICAS

11. **ARGENTINA: Enemy aliens elude police net**--US Ambassador Messersmith reports that (a) of 52 enemy aliens whose arrest and deportation has been ordered by the Argentine Government, 32 are still at large after an intensive six-weeks police round-up, and (b) of the 20 who have been arrested, four have obtained writs of habeas corpus from the courts, which have repeatedly held the deportation proceedings invalid. He adds that the Argentine Government is making a "determined effort" to apprehend the missing 32, two of whom may have escaped to other countries, and is investigating other persons on the lists submitted by the US and UK Embassies.
12. **BRAZIL: Press demands break with USSR**--US Military Attache Rio de Janeiro reports that some Brazilian newspapers are demanding severance of diplomatic relations with the USSR because of the alleged mistreatment of a Brazilian diplomat in Moscow. He believes that, however the incident is settled, it will weaken Brazil's Communist Party.

- 4 -

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